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June 19, 2002

Connie L. O'Connell
Commissioner of Insurance
Office of the Commissioner of Insurance
121 E. Wilson Street
Madison, WI 53702

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OF INSURANCE
WISCONSIN

Dear Commissioner O'Connell:

Following up on our earlier discussions regarding the upcoming listening sessions on health care costs, I am enclosing charts that reflect the strong connection between economic and employment growth and health care costs for employer-employee coverage.

It is generally recognized that health care costs increase with an aging population. In recent years, however, the increase in health care costs has been particularly acute for individuals in the 45-60 year old age category. Health care inflation for younger workers has been significantly lower. This demographic trend is national in scope. Enclosed are charts from our data and from the Urban Institute reflecting those changing trends in health care costs. For males in Wisconsin, the health care costs per worker are now nearly five times higher for workers age 55-60 than for workers age 20-25.

Wisconsin is particularly impacted by this interrelationship of demographics and health costs because of the loss of younger workers, the "brain drain," from Wisconsin. Governor McCallum had recognized this challenge in his Build Wisconsin announcement on June 17 with several initiatives aimed at retaining Wisconsin college graduates. The Build Wisconsin announcement notes that Wisconsin lost nearly 125,000 residents age 20-35 from 1990-2000. As reflected in the enclosed charts, the loss of young workers was particularly acute in the City of Milwaukee.

The results of these intersecting demographic and health care cost trends can be seen by Milwaukee manufacturers comparing costs for an older workforce in Milwaukee with the costs for a younger workforce at a newer plant in a southern state. It is not



uncommon to see a 10-year difference in average age of the workforce. That translates into a 40% difference in health care costs per employee. As employers transfer some of this cost to employees through higher payroll contributions, the younger employees have an economic incentive to decline the employer plan and purchase less expensive individual health insurance programs.

I would offer some suggestions for consideration as public policy to help address these trends:

1. Focus on areas of high cost increases which impact Wisconsin's older workforce:
 - a. Pharmacy Costs. These are the most rapidly increasing costs, and the "lifestyle" pharmaceuticals are heavily advertised towards aging baby boomers.
 - b. Outpatient Costs. Although a majority of the political discussion is aimed at hospital construction, the greatest cost increases are in outpatient services. Whatever regulation is adopted, these should be addressed in the same manner as inpatient services.
2. Tighten regulation on individual health insurance to assure an efficient and fair market as well as a level playing field between employer-sponsored plans and the individual plans increasingly selected by younger workers.
 - a. Mandated Benefits. Equalize mandated benefits between employer-sponsored and individual coverage
 - b. Renewal protection. Some insurers offer an initial low rate for individual coverage and then either cancel individuals who become sick or raise rates disproportionately for those individuals. These practices disrupt the employer group market and are unfair to the individual consumers.

I hope that these ideas are helpful to you in your discussions. There are a number of other areas that could help address rising costs which I believe deserve attention including: limiting tax-exempt financing to qualified health care projects; sunshine laws to provide public disclosure for health care providers similar to those already in existence



for health insurers; and expanding the outreach efforts for BadgerCare for the employer subsidy portion of that innovative program.

In conclusion, the data makes clear that the first priority for the state is expanding the Wisconsin economy and retaining our young workers. Build Wisconsin is an excellent economic development plan, and the success of that effort will not only help Wisconsin families by providing good job opportunities, but it will also reduce the cost per employee for employer sponsored health plans.

Dr Jim Hartert, our medical director, will be providing testimony at the Milwaukee listening session and will be available to answer your questions regarding health care cost trends.

Please feel free to call if you would like to discuss any of these policy suggestions further.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas R. Hefty", written over a horizontal line.

Thomas R. Hefty
Chairman and Chief Executive Officer

Enclosures

c: Steve Bablitch
Jim Hartert, M.D.


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Milwaukee County

July 1, 1999 Population Estimates

The Bureau of Health Information produces mid-year population estimates for the counties and state of Wisconsin by age and sex categories for non-Census years. Estimates are used to calculate population-based health statistics.

	Age Group	Males	Females	Total	Percent Change from 1990
	0-14	109,360	104,950	214,330	1%
	15-19	35,960	34,580	70,540	11%
	20-24	29,880	30,690	60,570	-21%
	25-29	29,440	32,330	61,770	-31%
	30-34	35,420	38,710	74,130	-15%
	35-39	40,830	42,850	83,680	13%
	40-44	38,900	40,720	79,620	30%
	45-54	56,770	62,590	119,360	42%
	55-64	33,020	38,780	71,800	-12%
	65-74	25,890	34,350	60,240	-16%
	75-84	16,380	27,790	44,160	1%
	85+	4,230	12,290	16,520	14%
	Total	456,080	500,630	956,710	0%

	Age Group	Males	Females	Total	Percent Change from 1990
	0-17	130,750	125,650	256,420	4%
	18-44	189,040	199,180	388,220	-7%
	45-64	89,790	101,370	191,160	16%
	65+	46,500	74,430	120,920	-7%
	Total	456,080	500,630	956,710	0%




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Southeastern Region

July 1, 1999 Population Estimates

The Bureau of Health Information produces mid-year population estimates for the counties and state of Wisconsin by age and sex categories for non-Census years. Estimates are used to calculate population-based health statistics.

Age Group	Males	Females	Total	Percent Change from 1990
0-14	224,920	214,480	439,420	4%
15-19	77,310	73,330	150,620	16%
20-24	61,870	61,960	123,830	-10%
25-29	58,690	62,320	121,000	-24%
30-34	69,920	73,980	143,900	-14%
35-39	85,480	87,040	172,560	15%
40-44	84,510	85,130	169,620	30%
45-54	129,060	136,380	265,420	43%
55-64	79,920	86,930	166,890	4%
65-74	56,290	69,550	125,830	-5%
75-84	33,390	53,430	86,840	12%
85+	8,670	23,270	31,950	24%
Total	970,050	1,027,760	1,997,810	6%

Age Group	Males	Females	Total	Percent Change from 1990
0-17	270,500	257,970	528,480	7%
18-44	392,200	400,270	792,470	-1%
45-64	208,980	223,310	432,310	25%
65+	98,350	146,250	244,620	4%
Total	970,050	1,027,760	1,997,810	6%





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State of Wisconsin

July 1, 1999 Population Estimates

The Bureau of Health Information produces mid-year population estimates for the counties and state of Wisconsin by age and sex categories for non-Census years. Estimates are used to calculate population-based health statistics.

Age Group	Males	Females	Total	Percent Change from 1990
0-14	567,850	539,930	1,107,780	1%
15-19	213,040	203,150	416,190	19%
20-24	176,010	172,410	348,430	-4%
25-29	160,990	164,580	325,570	-19%
30-34	182,960	185,570	368,530	-12%
35-39	220,390	216,410	436,800	13%
40-44	221,580	216,970	438,550	31%
45-54	347,970	354,310	702,290	47%
55-64	221,610	232,140	453,750	10%
65-74	162,030	190,100	352,130	-2%
75-84	99,960	149,740	249,700	14%
85+	27,740	67,720	95,460	30%
Total	2,602,140	2,693,040	5,295,180	8%

Age Group	Males	Females	Total	Percent Change from 1990
0-17	693,440	660,140	1,353,580	5%
18-44	1,049,380	1,038,880	2,088,270	1%
45-64	569,580	586,450	1,156,040	30%
65+	289,730	407,560	697,290	7%
Total	2,602,140	2,693,040	5,295,180	8%



Cost Comparisons by Age Groups
Incurred January - December 2001
by Gender

Age Group 25-30 Years

Plan Paid Costs per Member, per Year (PMPY)			
	HMO		BCBS
	Male	Female	Total
Inpatient	\$130.01	\$692.00	\$440.41
Outpatient	\$303.28	\$587.88	\$460.47
Physician	\$365.50	\$1,094.70	\$768.25
Rx	\$118.73	\$273.18	\$204.04
Total	\$917.52	\$2,647.77	\$1,873.16
Ave Members	6,036	7,447	13,483

Age Group 55-60 Years

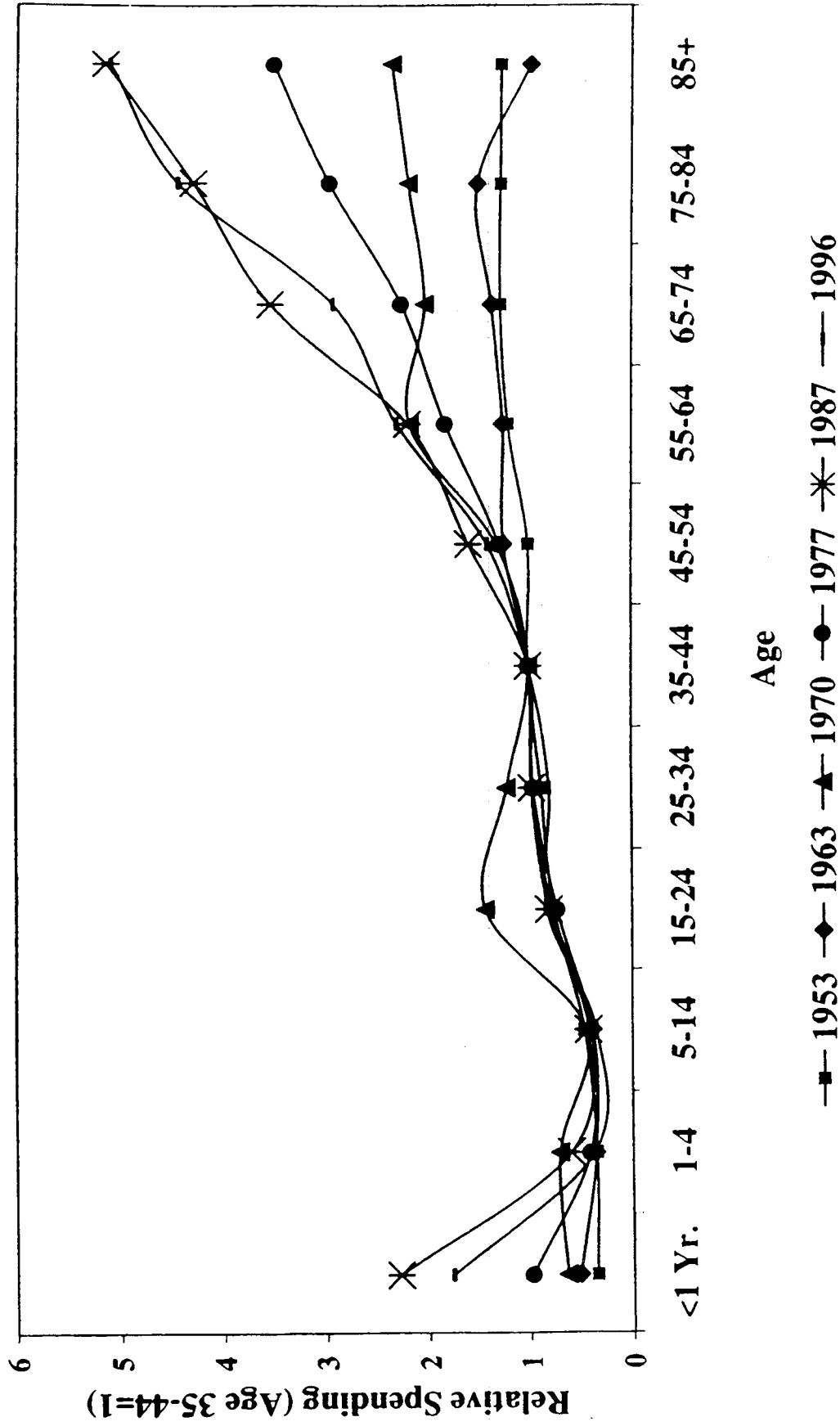
Plan Paid Costs per Member, per Year (PMPY)			
	HMO		BCBS
	Male	Female	Total
Inpatient	\$1,637.16	\$1,039.04	\$1,331.79
Outpatient	\$1,089.31	\$1,104.45	\$1,097.04
Physician	\$1,527.94	\$1,627.93	\$1,578.99
Rx	\$804.05	\$953.42	\$880.31
Total	\$5,058.46	\$4,724.84	\$4,888.13
Ave Members	6,417	6,693	13,110

Ratio Comparison

Age Group 55-60 yrs compared to Age Group 25-30 yrs			
	HMO		BCBS
	Male	Female	Total
Inpatient	12.593	1.502	3.024
Outpatient	3.592	1.879	2.382
Physician	4.180	1.487	2.055
Rx	6.772	3.490	4.314
Total	5.513	1.784	2.610

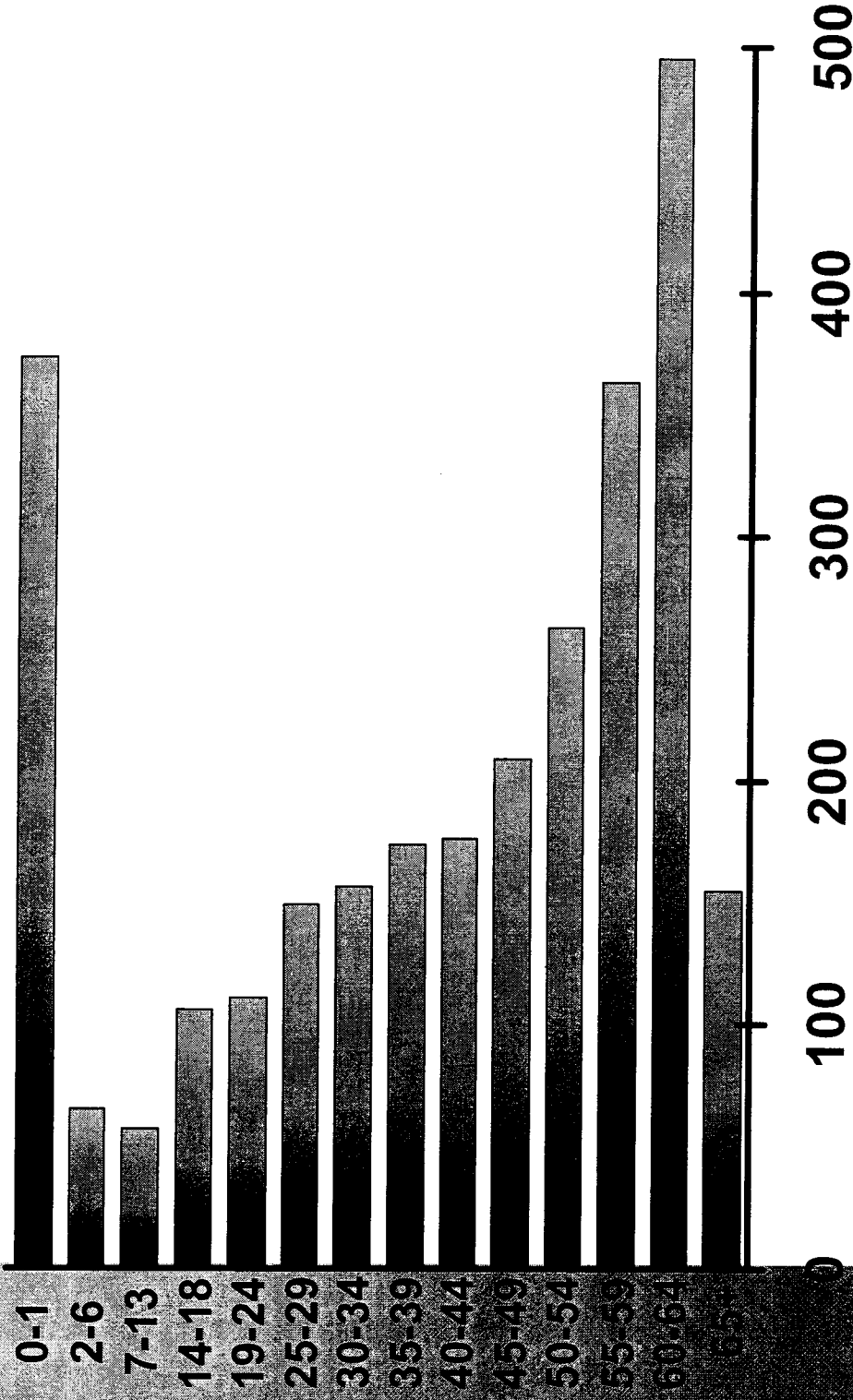
* Plan Paid Costs for services incurred January - December 2001, claims paid through February 28, 2002
 ** Plan Paid Rx Costs for BCBS are significantly lower than CompCare, due to significantly lower % BCBS participation in Rx benefit coverage and generally higher member copays and deductibles, and lower Rx utilization

The Age Distribution of Medical Spending 1953-1996



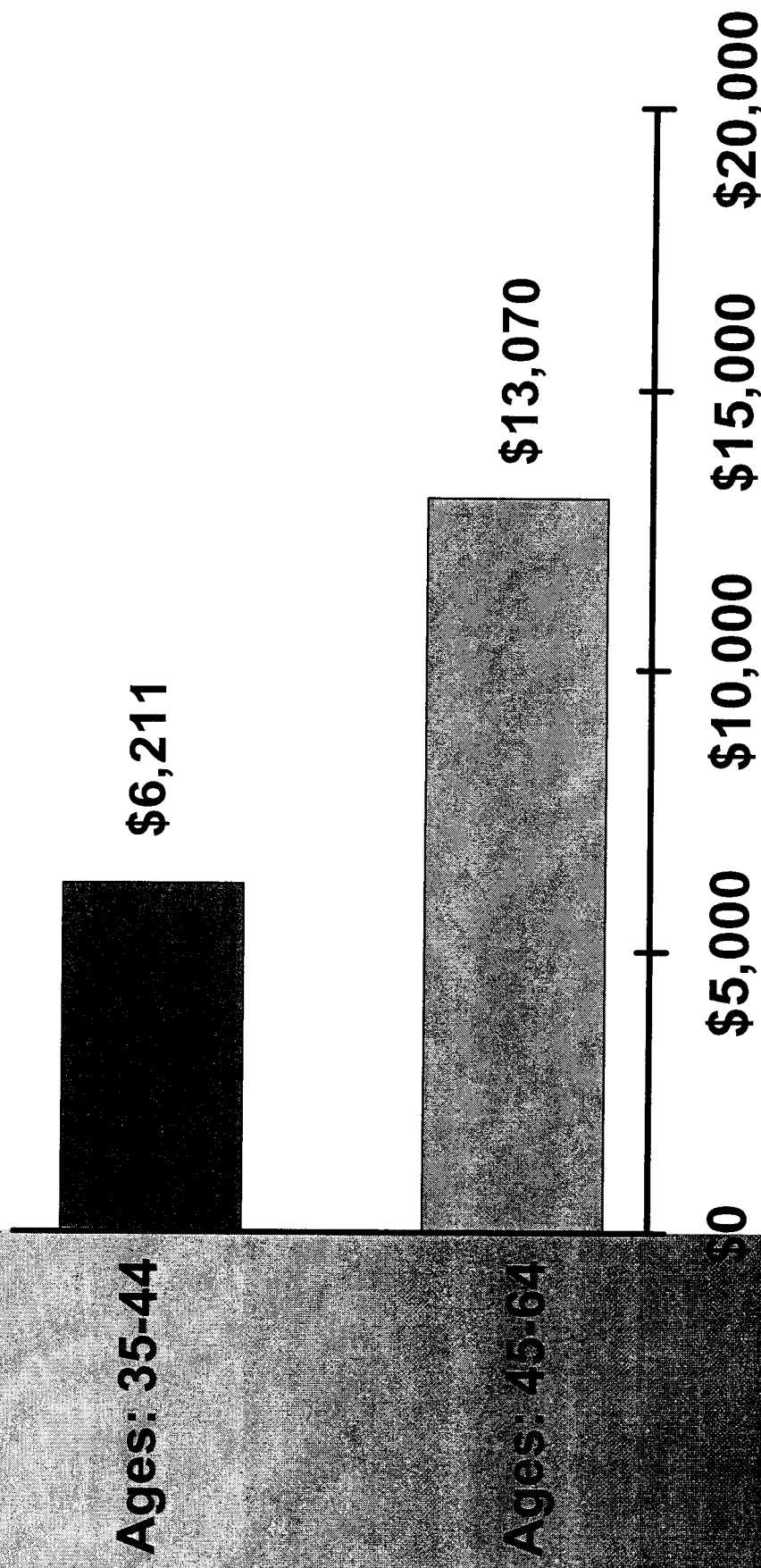
Source: Data for 1953, 1963, 1970, 1977, 1987 from: Cutler, David and Ellen Meira "The Medical Costs of the Young and Old: A Forty Year Perspective" NBER Working Paper 6114; July 1997. 1996 data are from the MEPS.

Blue Cross Group Medical Costs per Member per Month



Health Care Costs by Age

Average Cost of Top 5 Diagnoses by Age Group in SE Wisconsin



Source: Wisconsin Office of Health Care Information

The Aging Population